Answer Key -- Money and Credit

Chapter 3 · Economics

Reading Guide · Glossary · Comprehension · Practice Questions · 10 Puzzles

NCERT Companion Workbook · Based on “Understanding Economic Development, NCERT Class X”

Comprehension Questions -- Answered

Q1. How does money solve the problem of double coincidence of wants?

Answer: In a barter system, a person can trade only if they find someone who wants exactly what they have and also has exactly what they want in return. Money breaks this two-way requirement because a seller can accept money for goods and later use that money to buy something entirely different from someone else. This means a shoe manufacturer, for example, only needs to find any buyer for shoes rather than a wheat farmer who specifically wants shoes. By acting as a widely accepted medium of exchange, money makes trade far simpler and faster than direct barter.

Q2. Why are demand deposits considered part of money in the modern economy?

Answer: Demand deposits are amounts kept in bank accounts that can be withdrawn or transferred at any time on the depositor's demand. Because they can be used to settle payments directly through cheques, without needing to convert them into cash first, they function just like currency for making transactions. Since these deposits are widely accepted as a means of payment alongside currency, they are treated as forming part of a country's money supply. This shows that modern money is not just physical notes and coins but also the balances people hold with banks.

Q3. Compare Salim's and Swapna's experiences with credit, and explain what determined the different outcomes.

Answer: Salim borrowed to buy raw materials and hire workers for a large shoe order, and because the order was completed successfully, credit let him earn a solid profit and repay the loan easily. Swapna borrowed to cultivate groundnut, but a pest attack destroyed her crop, leaving her unable to repay and forcing her into a growing debt that eventually cost her part of her land. The outcome depended on whether the activity funded by credit actually succeeded, since credit itself does not guarantee success. This shows that credit is genuinely helpful only when the borrower has some capacity to absorb risk or a support system in case things go wrong.

Q4. What are the terms of credit, and why do they vary between different lenders?

Answer: The terms of credit include the interest rate charged, whether collateral is demanded, the documentation required, and the schedule for repaying the loan. These terms vary because different lenders face different risks and have different relationships with borrowers; a bank demanding formal documents behaves very differently from a village moneylender who knows the borrower personally. Poorer borrowers with no collateral to offer often end up facing tougher, more expensive terms than wealthier borrowers who can offer land or savings as security. This variation is central to why formal and informal credit sources end up serving very different groups of people.

Q5. Why do banks generally prefer lending to wealthier households over poor households?

Answer: Banks require proper documentation and collateral before approving a loan, and poorer households frequently lack land titles, savings records or other assets that could serve as security. Without collateral, banks see a much higher risk of not recovering their money if the borrower cannot repay. Wealthier households can more easily meet these requirements, so a much larger share of formal credit flows to them, as shown by the urban lending data in the chapter. This gap is precisely why alternatives like self-help groups have become important for reaching poorer borrowers who banks would otherwise turn away.

Q6. Explain the basic idea behind Self-Help Groups and how they help the rural poor get credit.

Answer: A Self-Help Group brings together fifteen to twenty people, usually women from the same neighbourhood, who save small regular amounts and pool this money together. Members can borrow from this pooled fund at interest rates lower than what moneylenders charge, and after a period of consistent saving the group becomes eligible for a bank loan in its own name. Because the whole group is responsible for repayment, banks are willing to lend even without individual collateral, since peer pressure within the group ensures loans are repaid. This system gives poor women access to affordable, timely credit while also building a platform for discussing wider social issues together.

Short-Answer Practice -- Model Answers

Q1. Why is money called a medium of exchange?

Answer: Because it is accepted by everyone as payment and can be exchanged for any good or service.

Reasoning: *Reasoning: acting as an intermediate step in trade removes the need to directly swap goods, which is what makes money useful across an entire economy.*

Q2. What is collateral?

Answer: An asset the borrower pledges as security against a loan.

Reasoning: *Reasoning: lenders demand collateral to reduce their risk, since they can sell it to recover their money if the borrower fails to repay.*

Q3. Name the two broad categories into which sources of credit are divided.

Answer: Formal sector and informal sector.

Reasoning: *Reasoning: this division separates regulated lenders like banks and cooperatives from unregulated lenders like moneylenders and relatives.*

Q4. Why does the Reserve Bank of India monitor commercial banks?

Answer: To ensure banks maintain proper cash reserves and lend fairly, including to small borrowers.

Reasoning: *Reasoning: without oversight, banks might lend only to large profitable businesses, leaving small farmers and cultivators without access to affordable credit.*

Q5. What makes Self-Help Group lending different from a moneylender's lending?

Answer: SHGs charge lower interest and require no individual collateral, relying instead on group responsibility.

Reasoning: *Reasoning: pooling savings and using peer accountability within the group substitutes for the collateral that poor members cannot individually provide.*

Q6. Why did Rama remain dependent on her landowner-employer for credit despite the high interest charged?

Answer: Because he was the only accessible source of credit available to her in Sonpur.

Reasoning: *Reasoning: without formal banking access or savings-based alternatives, landless workers often have no choice but to rely on informal employer credit despite its high cost.*

Objective Practice

A. Multiple Choice Questions

1. A direct exchange of goods without using money is called

a) credit

✓ **b) barter**

c) collateral

d) deposit

2. The Reserve Bank of India issues currency notes on behalf of the

a) state government

✓ **b) central government**

c) commercial banks

d) cooperatives

3. A cheque instructs a bank to pay a stated amount from the

a) payee's account

✓ **b) payer's account**

c) Reserve Bank's account

d) government's account

4. Banks generally keep what share of deposits as cash reserve according to the chapter?

✓ **a) Around 5 per cent**

b) Around 25 per cent

c) Around 50 per cent

d) Around 75 per cent

5. In Swapna's case, credit ultimately led to

a) higher profit

✓ **b) a debt trap**

c) loan waiver

d) new employment

6. Which of these is an example of informal sector credit?

a) Commercial bank

b) Cooperative society

✓ **c) Moneylender**

d) Regional rural bank

7. An asset pledged as security against a loan is called

a) interest

b) principal

✓ **c) collateral**

d) deposit

8. A typical Self-Help Group has about how many members?

a) 5-10

✓ **b) 15-20**

c) 50-60

d) 100-150

9. Grameen Bank, mentioned as a successful model of lending to the poor, operates mainly in

a) India

✓ **b) Bangladesh**

c) Nepal

d) Sri Lanka

10. Compared to formal lenders, informal lenders in India generally charge

a) lower interest

b) similar interest

✓ **c) much higher interest**

d) no interest

B. True or False

1. Money eliminates the need for double coincidence of wants. -- TRUE
2. Demand deposits cannot be used to settle payments directly. -- FALSE
3. Banks earn income mainly from the difference between interest charged on loans and interest paid on deposits. -- TRUE
4. Credit always improves a borrower's financial situation. -- FALSE
5. Collateral is required by most formal lenders but often waived by informal lenders who know the borrower personally. -- TRUE
6. The formal sector currently meets all of rural India's credit needs. -- FALSE
7. Self-Help Groups allow poor borrowers to access credit without individual collateral. -- TRUE
8. Richer urban households rely more heavily on informal credit than poorer households do. -- FALSE

C. Match the Following

Column A	Column B
1. Barter	a) Supervises and regulates the banking system
2. Demand deposit	b) Pools savings to lend to members without collateral
3. Collateral	c) Member-owned institution offering credit
4. Reserve Bank of India	d) Bank balance withdrawable at any time
5. Moneylender	e) Informal lender charging high interest
6. Cooperative	f) Situation where repayment becomes nearly impossible
7. Self-Help Group	g) Asset pledged as loan security
8. Debt trap	h) Direct exchange of goods without money

Answers: 1-h, 2-d, 3-g, 4-a, 5-e, 6-c, 7-b, 8-f

Higher-Order Thinking (HOTS) Questions -- Model Answers

Q1. A small trader can get a loan either from a bank at a lower interest rate with paperwork delays, or from a moneylender instantly at a much higher rate. Analyse the tradeoffs the trader faces.

Answer: The bank loan is cheaper over time because the lower interest rate means less of the trader's future earnings will go toward repayment. However, the paperwork and collateral requirements can delay access to funds precisely when the trader needs cash urgently, such as for a time-sensitive order. The moneylender offers speed and simplicity but at a steep cost that can eat heavily into profits or even tip the trader into a debt trap if business is slow.

The right choice depends on how urgent the need is and how confident the trader is of steady income to service either loan comfortably.

Q2. Explain why expanding formal sector credit, rather than simply banning informal moneylending, is presented as the better solution in the chapter.

Answer: Banning moneylenders outright would not remove poor households' need for credit, since many of them still cannot meet the collateral and documentation requirements banks demand. Without any alternative, this would likely push desperate borrowers toward even less regulated and potentially more exploitative arrangements. Expanding formal credit, through more bank branches, cooperatives and mechanisms like Self-Help Groups, tackles the root problem by making affordable credit genuinely accessible. This approach increases options for the poor rather than simply eliminating one option without replacing it.

Q3. Using the idea of terms of credit, explain why two people borrowing the same amount of money can end up in very different financial positions.

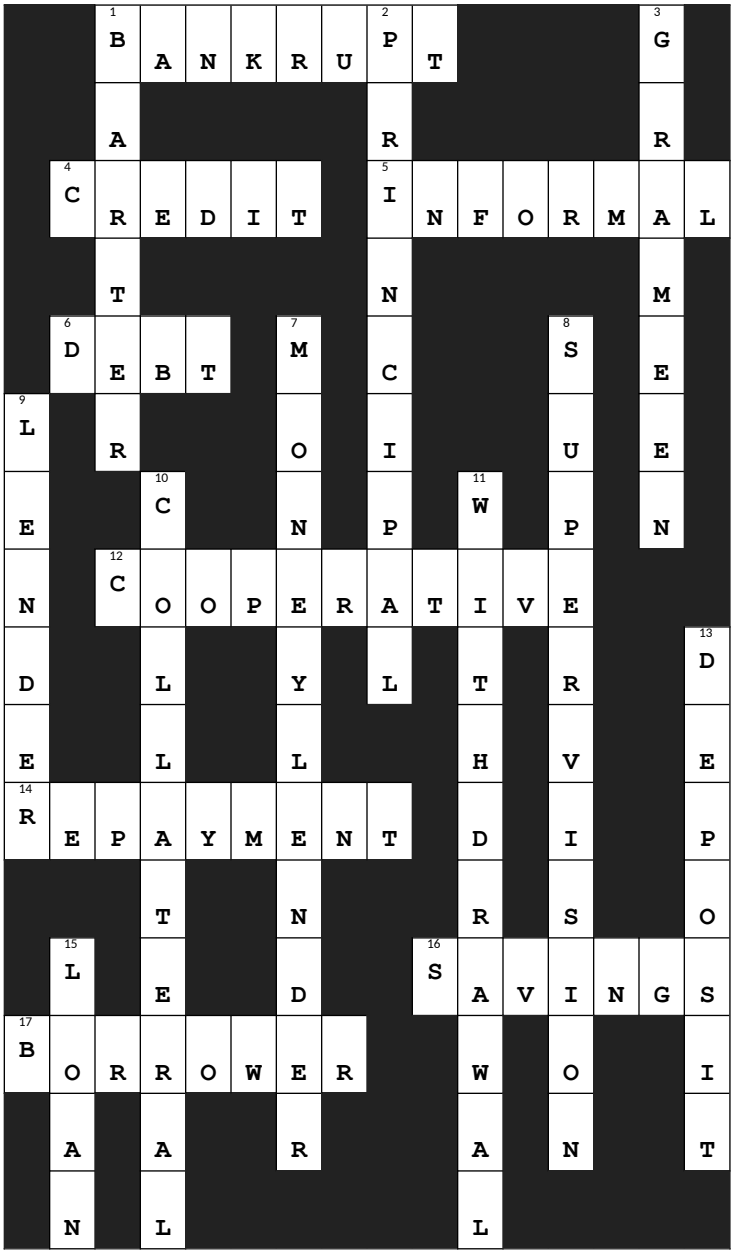
Answer: Even if the principal amount is identical, one borrower might face a low interest rate with a long, flexible repayment schedule while another faces a high interest rate and rigid deadlines. Someone required to pledge valuable collateral risks losing an asset if they default, unlike a borrower given an unsecured loan. These very different terms mean the actual burden and risk of borrowing can differ enormously despite the loans looking equal on paper. This is why the chapter insists that fair access to credit depends not just on getting a loan, but on getting a loan with reasonable terms.

Q4. Why might a bank be more willing to lend to a woman who is a member of a Self-Help Group than to an individual woman with the same income but no group membership?

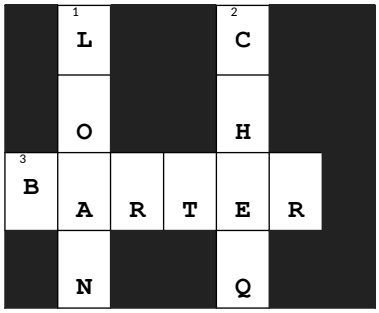
Answer: The individual woman likely cannot offer land or other collateral, making the bank's risk of non-repayment high and hard to manage. As part of an SHG, however, the whole group takes collective responsibility for the loan, and members actively pressure each other to repay because a default affects the group's future borrowing ability. The bank also sees a track record of regular group savings as evidence of financial discipline before it ever issues a loan. This shared accountability substitutes for individual collateral, which is exactly why SHG membership can unlock credit that would otherwise be denied.

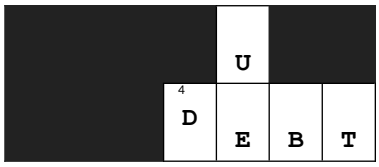
Puzzle Pack -- 10 Puzzles for This Chapter

1. Crossword


1 B A N K R U 2 P T 3 G
A R R
4 C R E D I T 5 I N F O R M A L
T N M
6 D E B T 7 M C 8 S E
9 L R O I U E
E 10 C N P 11 W P N
N 12 C O O P E R A T I V E
D L Y L T R 13 D
E L L H V E
14 R E P A Y M E N T D I P
T N R S O
15 L E D 16 S A V I N G S
17 B O R R O W E R W O I
A A R A N T
N L L

2. Mini Crossword





3. Word Search

N	C	O	O	P	E	R	A	T	I	V	E	O	L	A
Q	C	H	S	N	G	T	I	D	E	R	C	A	N	T
D	N	L	X	O	R	L	C	H	C	H	M	S	N	E
E	F	A	X	I	A	E	Q	D	E	R	G	E	L	C
B	P	R	T	S	M	N	J	Q	O	N	M	O	R	L
T	R	E	S	I	E	D	U	F	I	Y	A	E	E	A
Y	I	T	E	V	E	E	S	V	A	N	D	U	G	W
C	N	A	R	R	N	R	A	P	R	N	I	D	N	A
N	C	L	E	E	K	S	E	E	E	N	E	H	A	R
E	I	L	T	P	X	R	W	L	F	P	O	O	H	D
R	P	O	N	U	E	O	Y	O	O	U	F	A	C	H
R	A	C	I	S	R	E	R	S	K	L	F	W	X	T
U	L	L	R	R	N	M	I	C	P	U	H	D	E	I
C	O	T	O	O	A	T	R	E	S	E	R	V	E	W
W	P	B	M	L	T	P	U	R	K	N	A	B	N	V

4. Cryptogram

Encoded: LZUKV EKFDWIKC JWEMKE, WUX IEKXBM IWU RKDF ZE MEWF W JZEEZNKE.

Plain: Money replaces barter, and credit can help or trap a borrower.

Key: A=F B=I C=S D=L E=R F=P G=J H=Z I=C J=B K=E L=M M=T N=W O=G P=Q Q=V R=H S=K T=X U=N V=Y W=A X=D Y=U Z=O

5. Caesar Coded Message

Encoded: VXWNH JWM LANMRC. VXWNH ANYUJLNB KJACNA, JWM LANMRC LJW QNUY XA CAJY J KXAAXFNA.

Plain: Money and Credit. Money replaces barter, and credit can help or trap a borrower.

Shift: 9

6. Word Scramble

1. ATBPUKRN → BANKRUPT

2. LAON → LOAN

3. LARNPCIIP → PRINCIPAL

4. IRTCED → CREDIT

5. SASNVGI → SAVINGS

6. NRAEMEG → GRAMEEN

7. RCOEAVTOPEI → COOPERATIVE

8. IUIERSSVONP → SUPERVISION

9. DETB → DEBT

10. DNERLE → LENDER

7. Acrostic

C -- CURRENCY

O -- DEPOSIT

L -- LOAN

L -- LENDER

A -- BARTER

T -- INTEREST

E -- EXCHANGE

R -- RESERVE

A -- COLLATERAL

L -- FORMAL

Theme: COLLATERAL

8. Match the Pairs

A → 2

B → 3

C → 6

D → 1

E → 4

F → 8

G → 5

H → 7

9. Fill in the Blanks

1. Regulated lenders such as banks belong to the _____ sector of credit. → FORMAL

2. The extra amount paid for the use of borrowed money is called _____. → INTEREST

3. Trading goods directly without using money is called _____. → BARTER

4. Paper notes and coins authorised by the government are called _____. → CURRENCY

5. Unregulated lenders such as moneylenders belong to the _____ sector of credit. → INFORMAL

6. An asset pledged as security against a loan is called _____. → COLLATERAL

7. A written order instructing a bank to pay a stated sum is a _____. → CHEQUE

8. A group that pools members' savings to provide loans without collateral is a self-help _____. → SAVINGS

10. Odd One Out

1. Moneylender -- the only informal sector lender in the group

2. Barter -- the only exchange method that does not use money

3. Weather -- not one of the agreed terms of credit

4. Swapna -- the borrower whose credit led to a debt trap after crop failure